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TAGS: [PREL](#) [PGOV](#) [GR](#)
SUBJECT: PM KARAMANLIS OUSTS EMPLOYMENT MINISTER OVER
PENSION FUND SCANDAL

Classified By: POLITICAL COUNSELOR ROBIN QUINVILLE. REASON: 1.4 (B) A
ND (D).

¶1. (C) SUMMARY: In an effort to address public unhappiness over mishandling of pension funds, PM Karamanlis fired Employment Minister Tsitourides and replaced him with a party stalwart. Karamanlis' real motive, however, was to put the scandal behind him. His New Democracy government -- likely facing elections this year -- lost a small but crucial percentage of public support over the scandal. While ND remains ahead in the polls, Karamanlis will need to re-burnish his government's pro-management and pro-reform credentials over the coming months if he is to appeal to the electorate, again, as the "clean government" candidate. END SUMMARY.

¶2. (SBU) On April 30, PM Karamanlis replaced embattled Employment Minister Savvas Tsitourides with New Democracy stalwart Vassilis Maginas. Karamanlis announced the swap in a televised message on April 28, explaining that he was not prepared to tolerate the fact that a close associate of Tsitourides -- his undersecretary, Eugene Papadopoulos --

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was under investigation for alleged economic crimes.

¶3. (SBU) Most commentators, however, believe the real reason behind Tsitourides' ouster is the pension fund scandal plaguing the Karamanlis administration for the past two months. Tsitourides has been accused of failing to properly control public employee pension funds and their investment in "difficult" structured-finance instruments -- which had allegedly generated illicit "commissions" for unspecified individuals connected to the Karamanlis government. At the center of the scandal was a 280 million Euro bond and constant maturity swap (CMS) on behalf of the Greek Defense Ministry issued in February. While the subject is complicated (there are some eighty-plus pension funds in Greece, run by political appointees), constant press attention has increased the sense that there was something fishy (if not illegal) about the trade. Commentators noted that, in view of ND's "good governance" mantra and strong anti-corruption stance, Karamanlis had little reason to keep Tsitourides, now associated with two public scandals.

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¶4. (C) COMMENT: Karamanlis may have believed that the early-April Easter break would allow the pension fund story to blow over without a cabinet change that seemed to confirm allegations of impropriety. Instead, the scandal has added to the problems ND began to face when it tackled education reform last summer. The resulting ten months of prolonged strikes and student demonstrations, now coupled with the pension reform scandal, have dealt a serious blow to ND's credibility as the self-proclaimed party of reform and good management. The fund scandal will also make much-needed

overall reform of the pension system harder for the next government. The question is: will that government be ND or PASOK? While ND has suffered a drop in the polls, it maintains a steady but smaller lead over its opposition. Tsitourides' ouster is meant to stop the drop and hold on to

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every remaining percentage point.

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